

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Northern States
Power Company d/b/a Xcel Energy for
Approval of the 2002 Review of Nuclear Plant
Decommissioning

ISSUE DATE: January 9, 2004

DOCKET NO. E-002/M-02-1766

ORDER SETTING END OF LIFE DATES
AND OTHER GUIDELINES FOR NUCLEAR
DECOMMISSIONING ACCRUAL AND
REQUIRING COMPLIANCE FILING

PROCEDURAL HISTORY

On October 11, 2002, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) filed its triennial review of the projected costs of decommissioning its Monticello and Prairie Island Units 1 and 2 nuclear power plants. Xcel recommended that the Commission delay final action on this filing until the conclusion of the 2003 legislative session due to pending legislation that may affect the length of the recovery period as well as the total decommissioning dollar estimate. Xcel further recommended continuing the annual level of decommissioning accrual under the parameters established in the Commission's April 17, 2000 Order in Docket E-002/M-99-1438.¹

On January 9, 2003, the Department of Commerce (DOC) filed comments, which, among other things, recognized certain items of uncertainty and recommended that the Commission maintain the existing decommissioning accruals and that the Company file another detailed review in October of 2003.

Communities United for Responsible Energy (CURE) and Clean Water Action Alliance (CWAA) filed comments on January 7 and January 9, 2003, respectively.

¹ ORDER DETERMINING DECOMMISSIONING COSTS, APPROVING COST RECOVERY PROCEDURES AND ESTABLISHING FUTURE FILING REQUIREMENTS, Docket No. E-002/M-99-1438, *In the Matter of Northern States Power Company's Petition for Approval of its 1999 Review of Nuclear Plant Decommissioning*, April 17, 2000.

On February 3, 2003, the DOC filed reply comments addressing CURE's recommendations.

On February 7, 2003, Xcel Energy filed its reply to the comments of the DOC, CURE and CWAA.

On August 1, 2003, Xcel filed supplemental information regarding its triennial review of nuclear plant decommissioning costs and accruals. This filing addressed the impact of legislation extending the life of the Prairie Island plant on decommissioning fund accruals and on end of life nuclear fuel in addition to updating several variables in its original October 2002 filing.

On October 17, 2003, the DOC filed comments on Xcel's Update to its 2002 Review of Nuclear Plant Decommissioning.

On November 3, 2003, Xcel filed reply comments.

The matter came before the Commission on December 11, 2003.

FINDINGS AND CONCLUSIONS

I. Background

The purpose of the nuclear decommissioning review proceeding is to ensure that the amount of money collected annually over the life of the nuclear power plant's operations is sufficient at the time of the plant shutdown to cover the costs of decommissioning the facilities. These reviews are conducted triennially by the Commission to ensure that costs are being estimated as accurately as possible and that the fund is growing at the rate necessary to cover the eventual costs of decommissioning.

Xcel filed its Update to the 2002 Review of Nuclear Plant Decommissioning after the conclusion of the 2003 legislative session. The update includes the impact of the recent legislative session decisions on the Company's nuclear plant decommissioning cost estimates and proposed decommissioning fund accrual levels.

Prior to recent legislation,² Xcel's Prairie Island facility had been limited to a remaining life through 2007 due to constraints in its spent fuel storage capacity. However, the 2003 legislation provided for additional dry-cask storage containers for the Prairie Island facility and allowed for continued operation of Prairie Island Units 1 and 2 through the license lives of 2013 and 2014, respectively. The remaining life of the Monticello plant was not affected by the 2003 legislation and remains at 2010.

² Minnesota 2003 1st Special Session Laws, Chapter 11, signed by Governor Pawlenty May 29, 2003.

II. Xcel's Supplemental Filing

A. Period Over Which to Accumulate Funds

Xcel based its annual accrual on the accrual of decommissioning funds over the remaining lives of the operating licenses issued by the Nuclear Regulatory Commission (NRC). Xcel stated its intention to operate the Prairie Island plant to the end of current NRC licenses and argued that it would be appropriate to base decommissioning fund accruals on the 2013 and 2014 dates for Prairie Island Units 1 and 2, respectively, and 2010 for the Monticello plant.

B. Decommissioning Methods for Estimating Cost

Xcel stated it developed cost estimates for the decommissioning process based on two different scenarios: 1) the assumption that spent nuclear fuel would be moved to on-site dry storage as soon as possible after the appropriate cooling period so that reactors and spent fuel pools could be dismantled as soon as possible (DECON with dry storage); and 2) the assumption that spent nuclear fuel would remain in the spent fuel pool for the Monticello plant and a combination of dry and wet storage for the for the Prairie Island Units 1 and 2 (SAFSTOR with wet storage).

Xcel stated that applying the DECON method would result in an annual accrual of \$38.8 million, whereas applying the SAFSTOR method would result in an annual accrual of \$33.8 million. Xcel recommended a decommissioning annual accrual of \$36,316,866, which was the midpoint between the annual accrual required for each of the decommissioning methods. Xcel argued that this approach would mitigate the potential for over-funding while assuring that sufficient funds for decommissioning were available by the end of license life.

At hearing, Xcel stated its agreement to use the DECON method, as recommended by the DOC.

C. Escalation Rate

Xcel recommended that the overall rate at which decommissioning costs were expected to increase over time be set at 3.82%.

At hearing, Xcel agreed to the DOC's recommendation that it use a 4.19% overall escalation rate and a 6% burial escalation rate.

D. End of Life Nuclear Fuel Accrual

Xcel recommended a reduction in the end-of-life nuclear fuel accrual (from \$2,871,504 to \$1,847,736) based on the 2003 legislative changes which would allow Prairie Island Units 1 and 2 to operate through their respective license lives.

E. Internal Fund Transfer

Xcel initially recommended continuing to shift to 100% external funding with the completion of the transfer of the internal funds to the external accounts by 2007 for Prairie Island and by 2010 for Monticello. Xcel indicated that accelerating the transfer to the external accounts would increase costs to customers because the internal fund earns interest at a higher rate than the external fund (a guaranteed after tax rate of 7.9% compared to an expected after tax rate of return of 5.5%). An acceleration of the transfer would also have a positive effect on the Company's earnings.

At the recommendation of the DOC, Xcel agreed to an accelerated transfer of the internal fund balance to the external fund over the period between July 1, 2003 and December 2005.

III. The Positions of the Parties

A. DOC

The DOC recommended that the Commission take the following actions:

- adopt the same life for decommissioning accrual calculations for the external funds and for the end-of-life fuel accrual as used for depreciation purposes;³
- adopt a 6 percent burial escalation rate for purposes of calculating the decommissioning accrual;
- adopt a 4.19 percent for calculating the overall escalation rate for calculating the decommissioning accrual;
- adopt the DECON method for purposes of calculating the decommissioning accrual;
- require Xcel to accelerate the transfer from the internal fund to the external fund starting July 1, 2003 and ending December 31, 2005 or require Xcel to transfer the entire amount to external funds only if NSP Minnesota's bond rating were to go below BBB;
- make a clear statement that the Commission is not addressing, in this proceeding, the granting of regulatory assurance supporting the recording of the differences, as

³ See the Commission's January 5, 2004 ORDER AMENDING REMAINING LIFE OF THE PRAIRIE ISLAND NUCLEAR PLANT, Docket No. E,G-002/D-03-230, In the Matter of the Petition of Northern States Power Company d/b/a Xcel Energy for Approval of an Amendment to its Annual Review of Remaining Lives for 2003 (setting the remaining life of Prairie Island Units 1 and 2 based on their respective license lives).

regulatory assets or liabilities, between the amounts recorded under the certified decommissioning rates and those recorded according to Statement of Financial Accounting Standards (SFAS 143). In other words, the accounting for SFAS 143 should not dictate the recovery for future decommissioning filings.

- require Xcel to update SFAS 143 accounting in its next decommissioning filing.

The Company and the DOC disagreed on the matter of the appropriate remaining life for the Prairie Island Nuclear Plant Unit 1. The DOC recommended restricting the life extension for the Prairie Island Unit 1 to 2009 until such time that the steam generator replacement project for this unit is completed.⁴ It recommended using 2010 as the end of life for Monticello and 2014 for Prairie Island Unit 2.

Further, the DOC recommended that the end of life calculation for nuclear fuel be consistent with the remaining lives chosen for the plants. In this case, the DOC's change to the remaining life for Prairie Island Unit 1 from Xcel's recommended 2013 to 2009 would change Xcel's calculation for the end-of-life nuclear accrual.

B. CURE AND CWAA

CURE and CWAA commented only on the original filing of Xcel, not the supplementary material. CURE urged that this docket engage the timelines, costs and mechanisms to address: 1) full-scale contingency planning for replacement of Prairie Island; and 2) costs and funding for interim storage, which is not covered by decommissioning funds, insofar as the decommissioning and on-site storage terms are linked. CURE argued that the development of the record and options for action on this docket should not be delayed, even if the Commission grants the petition to delay a decision until after the legislative session. CWAA supported the comments of CURE.

IV. Commission Action

The Commission agrees with the DOC that the same remaining life should be used for the decommissioning accrual calculations and for the end-of-life fuel accrual as is used for depreciation purposes. Consistent with the Commission's January 5, 2004 decision in Docket No. E,G-002/D-03-230, which set the remaining life for the Prairie Island Units for depreciation purposes, the Commission will set the end-of life dates for Prairie Island Unit 1 at 2013, Prairie Island Unit 2 at 2014. Further, the Commission will set the remaining life for Monticello at 2010.

The Commission will require the Company to use the DECON method of decommissioning. The Commission has consistently required the DECON method for purposes of calculating the

⁴ This was based on Xcel's acknowledgment that in order to operate Prairie Island Unit 1 to the end of its license life the steam generators would have to be replaced. Without such replacement, Unit 1 might have to shut down by 2009.

decommissioning accrual and will continue to do so. The DECON method, in which about half of the costs occur within the first seven years, puts the burden of bearing the costs of decommissioning on those customers who benefit from the use of power produced by nuclear generation. Further, dealing with decommissioning as soon as possible is in the interest of economic efficiency and security. Finally, at this time there is no basis to suggest that by doing so the decommissioning fund will be overfunded.⁵

The Commission agrees with the recommendation of the DOC, and the agreement of Xcel, to accelerate the transfer of the internal funds to the external account. The Commission finds this reasonable considering the Company's current circumstances and will therefore require Xcel to transfer the internal funds to the external account over the period from July 1, 2003 through December 31, 2005.

The Commission will set an overall escalation rate of 4.19 percent and a 6 percent burial escalation rate as agreed to by the DOC and Xcel.

In order to keep the triennial review on track the Commission will require the next review on or before October 11, 2005.

The Commission also clarifies that it is not addressing, in this proceeding, the granting of regulatory assurance supporting the recording of the differences, as regulatory assets or liabilities, between the amounts recorded under the certified decommissioning rates and those recorded according to SFAS 143. The accounting for SFAS 143 should not dictate the recovery for future decommissioning filings.

ORDER

1. The Commission hereby sets the following end-of-life dates:
 - 2010 for the Monticello plant;
 - 2013 for Prairie Island Unit 1;
 - 2014 for Prairie Island Unit 2.
2. Escalation rates shall be set at 6% for low-level burial and 4.19% overall.
3. The DECON decommissioning method shall be used.

⁵ Nuclear Regulatory Commission Rules require that any funds placed in the decommissioning external funds must remain until all expenses associated with the decommissioning process have occurred and been paid. Any excess cannot be returned to ratepayers until the end of the process.

4. Xcel shall calculate the end-of-life for the nuclear fuel consistent with the remaining lives chosen for the plants;
5. Xcel shall accelerate the transfer of internal funds to external funds over the period July 1, 2003 through December 31, 2005.
6. Xcel shall make its next triennial nuclear decommissioning filing on or before October 11, 2005.
7. Xcel shall make a compliance filing within 30 days of this Order reflecting the nuclear decommissioning accrual resulting from the above decisions for 2003 and 2004/2005.
8. Xcel shall update SFAS 143 accounting in its next decommissioning filing.
9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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